ECON10004
Introductory Microeconomics

SUBJECT GUIDE

Semester 2, 2013

Prepared by
Nahid Khan

Department of Economics
Faculty of Business and Economics
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A. Key information

Lecturer:
Nahid Khan
Rm. 336, FBE Building
111 Barry Street
Phone: 8344-3621
Email: n.khan@unimelb.edu.au
Office hours: Wednesdays 2pm – 4pm

Assessment Dates
1. Tuesday Aug 20 (12 midday) to Thursday Aug 22 (12 midday) – Multiple-choice exam (on-line).
2. Monday Sep 9 (4.00pm) – Assignment 1.
3. Monday Oct 14 (4.00pm) – Assignment 2.

Web address:
http://www.lms.unimelb.edu.au
[Use the same username and password that you use to access your University of Melbourne email account.]
B. Subject details

**Class times:**

**a) Lectures** – 2 x 1 hour each week –

Lecture times:
- **Tuesday** - 11.00 and repeated on **Tuesday** 2.15 - Medical-Sunderland Theatre
- **Thursday** - 11.00 and repeated on **Thursday** 2.15 - Richard Berry-JH Michell Theatre

**Tutorials** – 1 x 1 hour each week (Timetable via ISIS – See section G of Subject Guide for details.) Begin in Week 2 – from Monday August 5.

**Textbooks:**

- **Required** -

Readings for each lecture from the current editions of the textbooks are listed in section D of the Subject Guide.

These texts are required for the subject. For most lectures they are the only prescribed reading. At some points in the subject however we will move beyond the coverage of the GKM text. For these lectures reading material is provided to you in the ‘Reading hand-outs’ that will be distributed.

- **Recommended** –
  - The Undercover Economist – Tim Harford (330.90511 HARF).

[These books provide excellent non-technical introductions to many topics that we will study, and include plenty of useful examples. Either one or both could be read at the start of semester as an introduction to the subject, or during the semester to help you review what we are studying. The books should be thought of as an optional supplement to the texts. Reading them is a way to develop your understanding of microeconomics, and to see a range of applications of key concepts. But material from these books will not be directly examined. Suggestions for other readings on microeconomics are in the ‘Ideas for Extra Reading’ section of the LMS subject site.]

- **Other resources** –

**Assessment:**

- **Exercise 1:** Multiple choice exam (5%) – On-line - To be completed between Tuesday Aug 20 (12 midday) to Thursday Aug 22 (12 midday)
- **Exercise 2:** Assignment 1 (10%) – Due: Monday Sep 9 (2.00pm).
- **Exercise 3:** Assignment 2 (15%) – Due: Monday Oct 14 (2.00pm).
- **Exercise 4:** Tutorial marks (10%).
- **Exercise 5:** Final examination (60%) – Two hour examination.
C. Subject objectives

Students who complete this subject will be able to:

• Describe the main objectives of the study of economics - to seek to understand the operation of the economy, and to guide decision-making by individuals, businesses and government.

• Explain the nature and role of theory and models in economic analysis.

• Explain the concepts of demand, supply, and market equilibrium; and apply the model of demand and supply in a market to explain the determinants of prices and output of goods and services.

• Explain how market and social welfare outcomes are affected by changes in demand/supply and government policy, and explain how and in what circumstances intervention by government in the operation of the economy can improve efficiency and social welfare.

• Explain models of firm behaviour in choosing output, price, and how to produce.

• Identify ‘strategic situations’ in economic activity, and be able to analyse and predict outcomes of strategic situations.

• Identify the main characteristics of different market types such as perfectly competitive and monopoly markets. Describe the nature of competitive behaviour in those markets, analyzing and predicting price and output outcomes in the different markets.

• Use examples to illustrate key concepts – such as the role of demand and supply factors in determining market outcomes, the effects of government intervention on market outcomes, the existence of strategic situations in the economy, and different types of markets.

• Apply economic models of individual behaviour and markets to describe the main features of actual markets, and to explain outcomes in actual markets, including prices and output levels, and business performance and profitability.

• Evaluate and critically analyse government policy, and make an informed contribution to public debate on economic issues.

• Proceed to the study of other economics and commerce subjects that have a knowledge of introductory microeconomics as a prerequisite.
### D. Lecture Outline and Readings

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E. Details on Assessment

**Exercise 1: Multiple choice question exam (5%)**
The multiple-choice exam will be conducted on-line through the LMS subject webpage. There will be 10 multiple-choice questions (each worth equal marks). You will have 30 minutes to complete the exam. Each student will receive a different set of questions randomly chosen from a much larger set of questions. A sample of the types of questions that might be asked is included as Appendix 2 to this Subject Guide.

**Exercise 2: Assignment 1 – 1000 words (10%)**
In this assignment you will be required to use economic concepts to answer questions on material that relates to the sections B and C of the subject. Assignment 1 is included as Appendix 3 to this Subject Guide. You should also read ‘Important notes on doing the assignments’ which is Appendix 5 to this Subject Guide.

**Exercise 3: Assignment 2 – 1500 words (15%)**
In this assignment you will be required to use economic concepts to answer questions on material that relates to section D of the subject. Assignment 2 is included as Appendix 4 to this Subject Guide. You should also read ‘Important notes on doing the assignments’ which is Appendix 5 to this Subject Guide.

**Exercise 4: Tutorial Marks (10%)**
At the end of semester your tutor will assign you a mark out of 5 for tutorial participation. Your grade for participation will depend on: evidence of preparation for the tutorial; frequency of participation in discussion; relevance and logic of comments in discussion; and evidence of active listening to other students’ contributions. Note that to receive a mark for tutorial participations, you must have a valid tutorial enrolment and if you miss more than 2 tutorials ½ mark will be deducted from participation marks for each extra non-attendance. The other mark out of 5 will be based on mini quizzes which you will have to do in tutorials every week. This is designed to prepare you for the actual tutorial tasks. There will be 3 multiple choice questions to answer as soon as you arrive at the class, so it is important to arrive at the tutorial class on time otherwise you may miss out on the quiz marks.

**Exercise 5: Final examination (60%)**
Held at the end of semester. Duration – Two hours. Will involve a mix of multiple choice, short answer, and essay type questions. The final examination paper for 2012 is Appendix 6 to this Subject Guide. More details about the exact format of the 2013 exam will be provided later in the semester.

**Submitting Assignments 1 and 2**
Assignments 1 and 2 will be submitted in electronic format using the Assignment Tool. You can access the Assignment Tool by clicking on ‘Assignment Tool’ in the navigation menu from the LMS subject website. Please note that you are required to keep a copy of your assignment after it has been submitted, as it may be necessary for you to be able to provide a copy of your assignment at some later date.
Meeting Deadlines
It is very important that you submit Assignments 1 and 2 by the specified times on the due dates. After that time there will be a penalty for late submission. To request an extension for an assignment, you’ll need to submit an ‘Assignment Extension Request Form’. The form must be submitted at Commerce Student Centre (FBE Building, 111 Barry Street, Upper Ground Floor).
Late assignments, where approval for late submission has not been given, will be penalised at the rate of 10% of the total mark per day, for up to 10 days, at which time a mark of zero will be given.

Special Consideration
If you wish to apply for Special Consideration in relation to any component of assessment in this subject you will need to lodge an application online with the Commerce Student Centre. Application for Special Consideration in relation to a component of assessment must be lodged within 3 working days of the date that component of assessment was due to be submitted/ performed. Information on the process for applying for Special Consideration, and on the material you will need to submit is available at: http://fbe.unimelb.edu.au/csc/assistance/special_consideration

F. About tutorials

Pre-tutorial work
Each week in tutorials a ‘blue sheet’ will be distributed. The blue sheet provides a guide to the subject matter of that week’s lectures and what will be the subject matter of the next week’s tutorial. For example, the blue sheet distributed in week 1 covers material that is the subject of lectures in week 1, and will be reviewed in tutorials in week 2. The blue sheet lists the main concepts and readings, and includes review questions. It is an important part of learning in this subject that you should attempt these questions. Usually solutions to the questions will not be covered in tutorials. Instead, solutions are posted on the LMS subject site. This happens at the end of the week following when the blue sheet is distributed.

In-tutorial work
Each week in your tutorial a ‘pink sheet’ will be distributed right after you do the mini quiz. The pink sheet lists the tasks that will be covered in the tutorial. Generally these tasks will be problem-type questions. Your tutor will break you up into small groups where you will work out solutions to the problems. At the end of the tutorial the tutor will bring everyone back together and review solutions. Often this will involve asking the small groups to take turns in presenting their suggested solutions.

G. Tutorial enrolment information
There will be weekly tutorials starting in the week beginning Monday July 30. Allocation to tutorials is determined by the student system ISIS. You must enroll in a tutorial via ISIS as soon as possible. You access ISIS through the Student Portal.

If you have any problems regarding tutorials contact me by email.

Note that tutors are not permitted to authorise a transfer from one tutorial to another, not even from one of their own tutorials to another of their own tutorials. Tutors are
only permitted to allow you to attend their tutorial if you are not enrolled in that
tutorial: Where because of illness you have missed your allocated tutorial in a
particular week. In that case a tutor may permit you to ‘sit in’ for that week only and
on no subsequent occasion during the semester. In this case you may attend any other
tutorial in that week and you should obtain an attendance form from the tutor to pass
on to their regular tutor to be entered into the tutorial participation and quiz marks
record.

H. How to study

• **Attend lectures.** These will give you a broad understanding of each topic and where
it fits into the subject. You should also read the relevant pages of the textbook and the
case study reading.

• **Work outside class contact hours.** Working outside class hours is essential for
performing to your full potential in the subject. It is recommended that 5-6 hours per
week (on average) should be spent on Introductory Microeconomics – This would
consist of about 1 hour per week reading the textbook, 2 hours per week doing the
pre-tutorial exercises, 2 hours per week (averaged over the semester) on the
assessment tasks, and ½ hour using the on-line revision tools.

• **Learn how to apply the main concepts.** To do well in this subject it is not enough
to be able to remember definitions or to provide a summary of lectures; what is most
important is to be able to apply the concepts and approaches that are presented. The
best way to develop this skill is through ‘active learning’ – for example, trying to
answer problems and questions, and discussing those answers with your fellow
students and with your tutor. Of course, you also need to know things like definitions
of concepts – but this should be the start rather than the end of your study for the
subject.

• **Practice writing up answers and doing diagrams.** You should attempt to write up
answers to each set of pre-tutorial and tutorial exercises, including drawing diagrams
that assist with explanations of the answers. This is good practice for the exam.

• **Do the assessment exercises.** Ensure you attend exams, submit essays, and
contribute to tutorials.
I. Resources for study

Subject homepage:

You can access the subject homepage at: [http://www.lms.unimelb.edu.au](http://www.lms.unimelb.edu.au)
To access the homepage you need to use the same username and password that you use to access your University of Melbourne email account.

A range of information is available on the subject website:
- Subject Guide.
- Announcements about the subject.
- Lecture overheads, audio lectures, and supplementary notes
- Tutorial materials - Solutions to ‘blue sheet’ questions.
- Old exam papers.
- Access to ‘On-line tutor’
- Access to ‘Assignment Tool’.
- Ideas for extra reading about economics, and links to economics-related websites.

It is important to check regularly the subject homepage for any new messages about the subject – Usually these messages would be placed under ‘Announcements’.

Audio lectures:

An audio recording of lectures delivered in this subject will be made available for review in the days following each lecture. Audio recordings of lectures allow you to revise lectures during the semester, or to review lectures in preparation for the end of semester exam. Audio lectures can be accessed from ‘Audio lectures’ on the LMS subject site. Audio streaming and podcast formats are available.

Extra hand-outs:

Copies of missed handouts from tutorials (blue and pink sheets) will be available from the LMS subject site at the end of the week in which those sheets were distributed.

Tutor consultation times:

Your tutor will have a designated consultation time when you will be able to consult on an individual basis about questions or problems you have with the subject material or about assessment exercises.
On-line tutor:

The Online Tutor (OLT) provides the scope to ask questions of a tutor online. It can be accessed via ‘TLU Tools’ on the LMS subject site. One role is for asking about material covered in lectures or tutorials. The other role is for answering questions about the assessment exercises.

Subject material

The aim of the OLT is to help you understand key concepts. It needs to be stressed that the OLT is not intended as a substitute for regular tutorials. It is therefore not a facility for providing solutions to tutorial questions, review questions, past exams or questions from the textbook. What the OLT is intended to do is to assist you in being able to work out solutions to those types of problems themselves. So if you have a query about any one of these questions you need to describe what aspect of the question you do not understand and show that you have made some attempt to resolve the problem yourself. You should also consult the relevant sections of your textbook before asking a question. Definitions, which are readily available in the textbook, will also not be provided by the OLT. It is however appropriate to consult the OLT if you have a question about an aspect of the definition you do not understand. The OLT will inform students directly if a question does not fall within the guidelines for the system’s use. Those questions that show some evidence of thinking and work will be given the most thorough response. Each time you access the OLT you will be prompted for keywords that relate to the question you want to ask, and the OLT system will direct you to previously asked questions that relate to these keywords. It is very important to check whether your question has been previously asked – since the OLT will not respond to questions that have already been asked, and are hence already available for viewing.

Assessment exercises

The OLT is available to help point you in the right direction as far as what is expected in an assessment exercise and to provide clarification on aspects of material, which has been read for the exercise that is not fully understood. Clearly OLT will not give answers to questions that relate too directly to a question set for the assessment.

Answers will in general be provided within a 24-hour period although on certain occasions when the system is particularly busy or on weekends a slightly longer period may be taken. The period before the mid-semester and end of semester exams is always particularly busy so it is always best to ask questions early. Whilst there is no limit on the number of questions which can be asked of the OLT by an individual student, the service is, like all resources, limited. If too many questions are asked by a student this would also suggest that that student has not spent sufficient time consulting the textbook and other sources for answers. It should be noted that whilst the use of humour is appropriate in relation to your dealings with the OLT insulting and offensive communications will not be tolerated.

Centre for Excellence in Learning and Teaching:

The Centre for Excellence in Learning and Teaching (CELT) (formerly the Teaching and Learning Unit) offers a wide range of support services to students. If you are
having any difficulty in studying for this subject you could arrange a consultation with the Centre’s learning skills specialist. The learning skills specialist can review your current approaches to study and offer advice. If you are a student from a non-English speaking background there is an ‘English as a Second Language’ specialist who is available to help you with your written work. Both of these specialists are available for face-to-face consultations or electronically through email. The CELT is located on Level 6 at 198 Berkeley Street. You can arrange for consultations or contact the CELT on-line through its webpage at: http://fbe.unimelb.edu.au/celt/ Make use of the CELT. It is there to help you.

Supplementary texts:

A range of alternative textbooks – appropriate for this subject - are available. There is no requirement to read any of these extra texts. However, if you are seeking to improve your understanding by reading alternative explanations of key concepts, or looking for extra examples, those texts may be useful.

Copies of three texts have been placed on reserve at the Baillieu Library:

Other texts that could be consulted are:

J. Plagiarism

It is the policy of the Department of Economics that attention be drawn to the nature and serious consequences of plagiarism and collusion.

Plagiarism
Plagiarism is the act of representing as one’s own original work the creative works of another, without appropriate acknowledgement of the author or source. (Creative works may include published and unpublished written documents, interpretations, computer software, designs, music, sounds, images, photographs, and ideas or ideological frameworks gained through working with another person or in a group. These works may be in print and/or electronic media.)

Collusion
Collusion is the presentation by a student of an assignment as his or her own which is in fact the result in whole or in part of unauthorised collaboration with another person or persons. Collusion involves the cooperation of two or more students in plagiarism
or other forms of academic misconduct. Both the student presenting the assignment and the student(s) willingly supplying unauthorised material (colluders) are considered participants in the act of academic misconduct. There is no objection to assignments being discussed in a preliminary way among students. **What is not permissible is anything in the nature of joint planning and execution of an assignment.**

Where an allegation of academic misconduct involving either plagiarism or collusion is upheld, significant penalties such as deprivation of credit for a subject or component or assessment can be imposed.

More information on plagiarism and academic honesty can be on the Centre for Excellence in Learning and Teaching website: [http://fbe.unimelb.edu.au/celt/tools/faculty_guidelines/plagarism_and_academic_honesty](http://fbe.unimelb.edu.au/celt/tools/faculty_guidelines/plagarism_and_academic_honesty)
K. About microeconomic theory by Jeff Borland

The objective of economics is to understand the operation of the economy, and to guide decision-making by individuals and organisations such as firms or government in the economy.

Economists seek to achieve this objective by developing ‘theories’. The structure of an economic theory consists of two components: a model and a set of hypotheses that represent the logical consequences of that model. A model is a simplified representation of an aspect of the economy that is to be the subject of theoretical analysis. Having specified a model to characterise the operation of some aspect of the economy, hypotheses or propositions are derived as logical consequences of the specified model. The degree of consistency between the hypotheses and actual market outcomes provides one test of the value of the theory for understanding the operation of the economy.

It is not only economists who use models to seek to understand behaviour and social outcomes. For example, in political science and industrial relations the use of models is also common. A distinction between ‘economic’ and ‘non-economic’ models is generally made on the basis of the specific features of those models. Two types of features identify economic models. First, there is a range of general core assumptions common to most modern economic models. Neoclassical economists, for example, have as basic modelling assumptions that all decision-makers are rational and have well-defined objectives they seek to achieve. The assumption of rationality means that in any environment, a decision-maker is aware of the complete set of actions available, can calculate the consequences of each action, and chooses the action which is best for achieving their objective. Second, in developing theories for studying specific economic situations, most economists would draw on the same general set of models. For example, for modelling strategic situations a common approach would be to apply a ‘game theoretic’ model.

An important detail regarding an economic model is that it will necessarily be a simplified and subjective representation of the aspect of the economy it seeks to describe. First, it would never be possible, or indeed useful, to provide a representation of the economy which included every possible detail about the economy. The objective of an economic theory is to identify and highlight the key factors which might explain some economic outcome, and to abstract from inessential details regarding that outcome or the situation from which it arose. In this regard, Keith Whitfield (The Australian Labour Market, 1987, Sydney, Harper and Row, p.7) has noted with reference to labour economists that:

"Some labour economists have likened their work to the making of a map - for the objective is not so much to describe reality as to give a representation which will be useful to those having to plot a course through it. Instead of contours or symbols, the labour economist develops theories and concepts, but the aim is much the same, that is, to develop a representation of a complex phenomenon which allows the main features to be highlighted and the superficial to be ignored."

A second consideration is that each economist will perceive different aspects of the operation of the economy, and different economic outcomes, in very different ways.
The historian E.H. Carr (What is History?, 1964, Pelican Books, p.22) has observed that:

"...the facts of history never come to us 'pure', since they do not and cannot exist in a pure form: they are always refracted through the mind of the reader."

The study of economics is no different. There are no objective facts about the operation of the economy or the nature of economic outcomes - only individual economists' perceptions of economic activity. Hence, any representation of the economy, and any choice of what aspects of the economy should be highlighted in a model, will be subjective.

As Keynes wrote (in Essays in Biography, pp.207-208, Macmillan, London) in 1933:

"The theory of economics does not furnish a body of settled conclusions immediately applicable to policy. It is a method rather than a doctrine, an apparatus of the mind, a technique of thinking, which helps its possessor to draw correct conclusions."

All this suggests that an economist must have two main skills – first, a ‘tool-kit’ of approaches to modelling the economy; and second, knowledge of how to apply those approaches to develop theories which fit the specific situations in which the economist is interested.

The primary objective of this subject is to enhance both types of skills. Specifically the subject will:

a) Introduce approaches and concepts fundamental to microeconomics – the concepts of demand, supply and market equilibrium in perfectly competitive markets; game theory; and firm behaviour in competitive and non-competitive markets; and
b) Present applications of microeconomic theory – using case studies, tutorial problem sets, and assessment exercises.

Saying that economics is about applying particular types of theories to understand the operation of the economy of course begs the question – what is the economy? Or put another way, what types of situations does economics seek to understand? There is no simple answer to this question. One response is to say that economics is concerned with situations involving choices about the allocation of scarce resources – and that microeconomics is about situations where individual units such as households and firms must make choices. This definition, however, still includes a wide range of situations. Amongst these situations there will be some where valuable insights can be obtained using economic modelling, and others where economic models seem of less use. For example, the application of economic models to seek to understand what factors influence consumers’ demand for food seems to provide useful insights; on the other hand, economic models seem much less relevant to understanding decisions about household formation (such as marriage). Economists however will disagree about what situations can and cannot usefully be understood using economic models (for example, some economists would disagree with my opinion on using economic models to study marriage). Therefore the decision about what types of situations can be understood using economic models is also a subjective one.
One final issue about economic models concerns the use of mathematics. It is important to know that maths is just another language for describing a model of the economy. Any model expressed mathematically can also be expressed in words. There are a number of reasons though why it is often useful to express a model in mathematical form. First, maths provides a common language for communicating the details or structure of a model. And second, a mathematical representation makes it easy to test the logical consistency of hypotheses or propositions derived from a model, and clarifies the relation between the model and conclusions. (For more discussion of this issue, see Krugman, P. (1998), ‘Two cheers for formalism’, Economic Journal, pages 1829-1836.)
Appendices

1. Sample multiple choice exam questions
2. Assessment exercise no.2 (Assignment 1)
3. Assessment exercise no.3 (Assignment 2)
4. Important notes on doing the assignments
5. 2012 Final examination
Appendix 1

Sample multiple choice questions

1. Fred decides to start a flower-growing business. To do this, he works only half-time in his job as a consultant, from which he could earn $100,000 per year as a full-time employee. Hot houses for the flowers cost him $50,000, and if he decides at any time to discontinue his business, he could sell the hot houses for $30,000. Seeds to grow the flowers cost $10,000. There are no other costs. Assume there is a zero rate of interest. Flowers to sell will not be available until one year after the business commences.

The opportunity cost to Fred if he ceased to operate his business at the end of the first year would be:
   a) $50,000
   b) $160,000
   c) $80,000
   d) $130,000
   e) $110,000

2. Dan the Developer owns a block of land on which he has been thinking of building a new house. He paid $200,000 for the land, and has already spent another $20,000 on building permits and preliminary work. The cost of building the house would be $200,000. Costs of selling either the house and land, or just re-selling the land, would be $10,000. Dan knows that he could re-sell the land for $160,000. He must decide to either sell the land, or to build a house and sell the land/house.

What is the minimum amount for which Dan would need to expect to be able to sell the house and land, in order for him to decide to build the house?
   a) $430,000
   b) $360,000
   c) $350,000
   d) $210,000
   e) $160,000
3. Tastes of television viewers change towards ‘reality TV’ and away from ‘documentaries’. At the same time there is an increase in consumer income, and watching TV is known to be a normal good.

From the information provided, we can say that the following must occur:

a) Demand for ‘reality TV’ will increase, and demand for ‘documentaries’ will decrease.
b) Demand for ‘reality TV’ will increase, and it is not possible to say what will happen to demand for ‘documentaries’.
c) It is not possible to say what will happen to demand for ‘reality TV’, and demand for ‘documentaries’ will decrease.
d) Supply of ‘reality TV’ will increase, and it is not possible to say what will happen to supply of ‘documentaries’.
e) Demand and supply of ‘reality TV’ will increase, and it is not possible to say what will happen to demand and supply of ‘documentaries’.

4. There is a drought in regions in Australia where oranges are grown. At the same time, there is an increase in the number of mango growers. Finally, an increase in income of Australian consumers occurs.

From the information provided, we would expect:

a) An increase in demand for mangos and oranges.
b) An increase in demand and supply of mangos.
c) An increase in demand for mangos, and a decrease in supply of oranges.
d) An increase in supply of mangos, and a decrease in supply of oranges.
e) An increase in supply of mangos, and a decrease in demand for oranges.

5. Assume the market for CDs is perfectly competitive. There is an improvement in production processes for manufacturing CDs.

At the price that was the equilibrium price prior to the improvement in production processes, following the improvement there will be:

a) An excess supply of CDs.
b) Excess demand for CDs.
c) An increase in demand.
d) A decrease in supply.
e) Both a) and d).
6. Consider the following perfectly competitive market for a good:

\[ Q_s = 2P \]
\[ Q_d = 100 - 2P \]

Which of the following is correct?

a) At \( P = 50 \) there will be excess demand for the good.
b) Only at prices below \( P = 30 \) will there be excess demand for the good.
c) The equilibrium quantity traded is 25.
d) At prices above \( P = 25 \) there will be excess supply for the good.
e) The equilibrium price is 50.

7. The price of the first-year microeconomics textbook, ‘Micro Made Easy’ by Al Marshall, has increased. Assume the market for first-year microeconomics textbooks is perfectly competitive.

Which of the following could not explain the price increase?

a) A new first-year microeconomics textbook ‘Micro Matters’ by the world-famous economist Adam Smith has been published.
b) The price of other first-year microeconomics textbooks has increased.
c) Enrolments in first-year microeconomics subjects have increased.
d) The author of ‘Micro Made Easy’, Al Marshall, negotiates a new contract that requires the publisher to pay him a higher royalty per copy sold.
e) There has been a decrease in supply of the type of paper used for ‘Micro Made Easy’.

8. In the world market for cocoa beans there have been two main recent phases:
Phase 1: Pre-early 2001: Decrease price/Increase quantity traded; and
Assume the market for cocoa beans is perfectly competitive.

Which of the following cannot be correct?

a) Supply increased in both phases.
b) Only supply changed in both phases.
c) Only demand changed in both phases.
d) In the first phase there was an increase in supply, and an increase in demand.
e) Both a) and c).
9. Motor vehicles and petrol can be considered to be complements. Crude oil is an input to petrol, and steel is an input to motor vehicles. Assume markets for petrol, motor vehicles, crude oil, and steel, are all perfectly competitive. Suppose that the price of motor vehicles decreases, and the price of petrol increases.

Which of the following could explain these changes?

a) There is a decrease in supply of crude oil.
b) There is a decrease in supply of steel.
c) There is an increase in demand for steel.
d) There is a decrease in demand for crude oil.
e) Either a) or c).

10. Beer is an inferior good, and wine is a normal good. Both goods are traded in perfectly competitive markets. There is a decrease in consumer income. We would expect the direct effect of the change in income to be:

a) A decrease in the equilibrium price of beer, and an increase in the equilibrium price of wine.
b) An increase in the equilibrium price of beer, and an increase in the equilibrium quantity traded of wine.
c) No change in equilibrium price or quantity traded of either good since the decrease in income will have an equal effect on supply and demand of both goods.
d) An increase in equilibrium price of beer, and a decrease in equilibrium quantity traded of wine.
e) A decrease in demand for both beer and wine.
Ford Australia says it will close its Australian manufacturing plants in October 2016, with the loss of hundreds of jobs.

Ford president Bob Graziano said approximately 1,200 workers would lose their jobs when the Broadmeadows and Geelong plants were shut down. He made the announcement in Melbourne this morning after announcing that the company had lost $141 million over the last financial year - taking losses over the past five years to more than $600 million.

"Our costs are double that of Europe and nearly four times Ford in Asia," Mr Graziano said.

"The business case simply did not stack up, leading us to the conclusion [that] manufacturing is not viable for Ford in Australia in the long-term."

. . . . .

The AMWU's Leigh Diehm said members across both sites were "devastated by the news".

"We have great concerns about the flow-on effect into the auto components industry and the supply chains for Ford," he said.

"Our members have just been faced with the reality they are going to be unemployed in October 2016.

. . . . .

Last year the Federal Government gave $34 million to Ford for production until "at least the end of 2016", and this morning Prime Minister Julia Gillard said the subsidy was still needed to keep the plants operating.
She said the Federal and Victorian governments would contribute $39 million to help the Geelong and Broadmeadows communities deal with the job losses, and called on Ford to make its own contribution.

"The fund will work with local communities so that we can source new opportunities for those communities, new work for those communities, new work for people to have in the place where they are proud to work and so happy to live," she said.

She also said the two governments would contribute a total of $12m to help supply chain workers.

Prime Minister Julia Gillard has stared down backbench calls for an increase in tariffs on imported cars in the wake of Ford's decision to shut down its Australian plants.

Labor backbenchers Darren Cheeseman, Nick Champion and Doug Cameron say an emergency increase (in tariffs) is needed to save the domestic car industry.

Opposition Leader Tony Abbott has told Triple M low tariffs ensure choice.

"The reason why people buy foreign cars is because we like variety," he said.

"There's four or five locally made models but there's 370 odd models on sale, so the public want the variety that motor imports give them," he said.


Answer the following questions based on some of the above facts from recent concerns in the car industry of Australia.

1. a) Assuming perfectly competitive markets use a demand and supply model to explain what will be the effect on the level of employment and wages in the labour market for car workers in Victoria at the end of this year following their closing of the Ford Broadmeadows and Geelong plants in 2016? (1 mark)
   b) What would you expect will happen to the level of employment and wages in the top rival company Holden? (1 mark)

2. a) If Ford ceases its operation in Australia what is the likely effect on market outcome for sales and prices for Australian manufactured Holden cars? (1 mark)
   b) What would be the likely effect on market outcome for other imported cars in Australia such as Hyundai? (1 mark)
   c) Assuming Holden is a close substitute for Ford, and Hyundai is not a close substitute for Ford, will there be any difference in the change in market outcome for Holden and Hyundai in your answer in part (a) and (b), following the closure of Ford’s operation? Why or why not? (1 mark)
3. a) Using a demand and supply model show how the Federal Government’s contribution can help Ford to keep producing until 2016. (1 mark)  
   b) Discuss the justification of spending by Federal and Victorian governments that could achieve other potential benefits. (1 mark)  

4. a) Use an international trade model to explain the effect on producers, consumers and social benefits if tariff on imported cars are increased to support the domestically produced cars. (1 mark)  
   b) There have been some suggestions about increasing the tariff on imported cars to save the domestic manufacturers in Australia. Both the government and the opposition discarded the idea. Following your answer in part (a) would you agree with their stance? Why or why not? (1 mark)  

5. a) Use a model of foreign exchange market to show the change in the Australian exchange rate if a higher tariff imposed on imported cars. [the exchange rate is defined by the US dollar per Australian dollar] (1 mark)  

Extra information on doing assignment 1  

Some general hints  
The objective in this assignment is to answer questions 1-5. So the most important piece of advice is to do what the questions are asking. For example, some questions ask you to apply the demand/supply model to answer questions about changes in market outcomes. This means that to answer these questions you should explicitly use the concepts of demand and supply, and equilibrium price and quantity traded.  

You don’t need to state definitions of any of the concepts such as demand and supply, or equilibrium. Assume that your tutor knows what these concepts mean. Instead, the assignment is trying to test your knowledge of the concepts by how you apply them in answering the questions.  

To complete the assignment the only reading you should need to do is lecture notes and the relevant sections of the textbook, and the excerpts from the articles included with the questions.  

Marking criteria  
Three main factors will be considered in marking your assignment:  
a) Knowledge of economic concepts – For example: Has the answer used the appropriate economic concepts? Does the answer show a thorough understanding of those concepts?  
b) Quality of analysis and application of economic concepts – For example: Is there a logical and thorough supporting argument or description of how conclusions have been drawn? Have economic concepts been applied in an effective manner in the particular application? Are assumptions clearly described? Is an understanding shown of any relevant qualifications to the conclusion?
c) Presentation – For example: Are the writing style and organisation of material such that the main ideas and arguments can be understood? Are diagrams presented clearly and effectively integrated with text?
Subject Guide – Appendix 4

ECON10004 Introductory Microeconomics
Semester 2, 2013
Assignment 2 (15%)

Due date: Monday October 14 (By 2pm).
Assignments must be submitted using the ‘Assignment Tool’ via the LMS subject site for Introductory Microeconomics (For further instructions see the notes on ‘Submitting Assignments 1 and 2’ in the Subject Guide.)
Please remember to keep a copy of your assignment.
This assessment exercise will account for 15 per cent of your final grade in the subject.
Limit: 1500 words (Word limit does not include diagrams)

Part A (10 marks) (1000 words)

Questions
Consider the market for airport parking in the city of Melbourne. Suppose that there is: i) increase in maintenance cost of supplying these parking in terms of safety and security; ii) increase in demand for parking as more people are travelling in recent times.
What will be the effects of these changes, a) on profits made by the airport authority, b) on the effects on market prices and quantities and c) on consumer surplus.
As a guideline to the material to be covered and the allocation of marks, your essay should cover the following:
(a) Choose an appropriate industry structure. Represent a market equilibrium situation for the market and a typical firm in the long run. (2 marks)
(b) Work through the effects of the increased cost of supplying parking and higher demand. Represent the effects of these changes via: (5 marks)
   i) what are the supply side effects?
   ii) what are the demand side effects?
   iii) what are the effect of these changes on market equilibrium in short run and long run?
(c) What pricing strategies the airport authority might take to maximise profit that will not necessarily reduce social welfare? (3 marks)

Part B Case study (5 marks) (500 words)
The objective of the case study is for you to choose an economic activity that creates negative or positive externalities. Using an appropriate market structure show how a market equilibrium will be achieved that gives a different price and quantity compared to the socially optimal quantity. What policy recommendations can you make to improve social welfare through some type of intervention? Explain.
Caution: do not use any text book example or an example from the lectures, find your own topic. To choose a particular economic activity you need to read and look around with an open mind and think if this activity creates any externalities. The chosen activity should have some factual basis and cannot be a made up activity.
In the case study you should:
a. Introduce the externalities created by the economic activity that you will analyse;
b. Briefly describe the difference between the market and optimal outcome in the absence of intervention;
c. Explain a single intervention mechanism that will correct the externalities.
d. Provide any concluding remarks.

Four main factors will be considered in marking your case study:
a) Knowledge of economic concepts – For example: Has the answer used the appropriate economic concepts? Does the answer show a thorough understanding of those concepts?
b) Quality of analysis and application of economic concepts – For example: Is there a logical and thorough supporting argument or description of how conclusions have been drawn? Have economic concepts been applied in an effective manner in the particular application? Are assumptions clearly described? Is an understanding shown of any relevant qualifications to the conclusion?
c) Presentation – For example: Are the writing style and organisation of material such that the main ideas and arguments can be understood? Are diagrams presented clearly and effectively integrated with text?
d) Research – Have examples been chosen that have taken some effort to find? What is the quality of evidence supporting arguments that are made?
Appendix 5

Important notes on doing the assignments

1. Plagiarism

Please be aware of the University policy on plagiarism. There is no problem discussing with other students how you are planning to answer the questions, or sharing ideas about how to complete the assignment. But the writing up of your answers to the assignment MUST be something that is your work alone.

2. Word limit

Remember that there is a word limit. As well, if you can provide a thorough answer in fewer words then that is fine; a precise answer is always preferred to an answer that includes content that is not directly relevant to the question.

3. Diagrams

Use diagrams where you believe this will assist you in giving the most effective answer to a question. (But it’s not required to use diagrams for every question.) For a diagram to contribute to your answer you’ll need to:

Represent the diagram correctly - Each diagram should be titled and all axes and curves should be labeled. The initial point of equilibrium should be identified. Changes in points on the diagram should always be explained with reference to the changes measured along both axes.

Explain the diagram - You should be able to explain the diagram in words and relate it to the point you are making or question you are answering. Remember, a diagram by itself does not constitute an answer.

Relate the diagram to the relevant theory – Make sure your diagram is consistent with the model and theory you are using, and represents them correctly and logically.

Source: Cowie J., Findlay C., McTaggart D., Reading between the lines Addison-Wesley Sydney, 1994.

4. Referencing

You need to reference any direct quotes or major pieces of evidence you cite, as well as where you are drawing extensively on another work in your own writing. The standard referencing system in economics is the Harvard system, but you can use whatever referencing system you find suits you best.
Example: The Harvard System

How to cite references within the text of your essay
References in the text give the author’s surname, the date of publication and, if a quote or specific fact is referred to, the page number as well.
For example:
Where reference is made in the essay to more than one work by the same author that was published in the same year, the distinction is shown by using letters (both within the text and in the reference list), as follows:
‘As shown in Rockett (1990b), in industries where…’
The abbreviation ‘et al.’ may be used where there are more than three authors, as follows:
See Kamien et al. (1992) for a comparison of optimal…’
When citing several references to support a particular point, list them chronologically and separate them with semi-colons:
‘There exists a vast theoretical literature exploring the reasons for and consequences of this type of policy (Abowd, 1976; Wooden & Dawkins, 1983; Williams et al., 1995).’

How to cite references in your essay reference list or bibliography

A. BOOKS
The following information should be provided in the order stated:

- Author’s name and initials
- Date of publication
- Title, underlined or in italics, with initial letters of first word and of proper nouns in capitals
- Publisher
- Place of publication
- Page numbers, if a specific reference in a long work under the Oxford system.

Authors are cited in the order used on the title page. (All authors should be shown in the reference citation, though, as mentioned above, in the text the name of the first author and ‘et al.’ can be used where there are more than three authors.)

B. JOURNAL ARTICLES
The format for referring to journals and periodical is as follows:

- Author’s name and initials
- Date
- Article title in lower case
- Journal title, underlined or in italics
- Volume number
- Page numbers.


C. ARTICLES OR CHAPTERS IN BOOKS

D. GOVERNMENT PUBLICATIONS
APRA (Australian Prudential Regulation Authority), 2003, Superannuation Trends, Sydney.

E. NEWSPAPER ARTICLES

Silkstone, Dan 'Levy on city car parks proposed to cut congestion'. The Age, 8 April 2005, p3.

F. WEBSITES
List the author, year of publication, and title of the reference. As well it is necessary to include the address of the site from which the material was accessed, and the date at which it was accessed.
Appendix 5

THE UNIVERSITY OF MELBOURNE
DEPARTMENT OF ECONOMICS
SEMESTER 2 ASSESSMENT, 2012
ECON10004 INTRODUCTORY MICROECONOMICS

Time Allowed: TWO hours
Reading Time: 15 minutes

This examination paper contributes 60% to the assessment in ECON10004.

The Response Sheet for the multiple-choice questions should be inserted in the back of the examination script book at the end of the examination. For the multiple-choice questions, you may use the examination script books to make notes or calculations. These notes will NOT be taken into account for your assessment.

SECTION A: ANSWER ALL QUESTIONS

This section is worth 25% of the total exam marks.
Answer all questions. Fill in the small circle in the appropriate place with a 2B pencil on the Response Sheet provided. An incorrect answer, no answer, or more than one answer, will receive a zero mark.

SECTION B: ANSWER ALL QUESTIONS

This section is worth 25% of the total exam marks.
Answer all questions. Each question is worth equal marks.

SECTION C: ANSWER ALL QUESTIONS

This section is worth 50% of the total exam marks.
Answer all questions. Questions are worth different marks.

The following item is authorised in the examination room:
A print dictionary that translates English into a foreign language
A calculator is not allowed.

This exam paper cannot be removed from the examination room. A copy of this exam paper will be held in the Baillieu Library.

This exam paper has 8 pages
QUESTION A

ANSWER ALL QUESTIONS IN THIS SECTION

This section is worth 25% of the total exam marks.
All questions in this section are worth the same number of marks.
For each question select the one BEST answer. Incorrect answers, multiple
answers, or no answer, will receive zero.
Mark your answer on the Response Sheet.

Question A1

You have a part-time job at the local supermarket as a trolley collector from the car
park to the shop’s trolley area. For each trolley you collect you are paid $0.50. Your
trolley collection performance by hours is shown in the following table. To do the
work of collecting trolleys you need to hire a trolley car and the cost of hiring a
trolley car is $20 per hour. How many hours of trolley collecting would you want to
do to maximise profits?

<table>
<thead>
<tr>
<th>Hours of trolley collection</th>
<th>Total numbers of trolley collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td>2</td>
<td>180</td>
</tr>
<tr>
<td>3</td>
<td>240</td>
</tr>
<tr>
<td>4</td>
<td>280</td>
</tr>
<tr>
<td>5</td>
<td>300</td>
</tr>
</tbody>
</table>

a) 1
b) 2
c) 3
d) 4

Question A2

Paul the Publisher is in the process of publishing a new recipe book on healthy eating
by Cheryl Chef. The costs of supplying the book are a cost of $10 to print each copy
of the book, a cost to distribute the book to bookstores of $1 for each copy, and then
for each copy sold Cheryl must be paid $5. Suppose that Paul has printed 1000 copies
and expects to sell those copies if the books are distributed. What is the opportunity
cost of choosing to distribute the book to bookstores?
a) $10,000.
b) $6,000.
c) $5,000.
d) $1,000.

Question A3
Pizza and burgers are substitutes. Cheese is an input to pizza, and meat is an input to burgers. Assume the markets for pizza, cheese, burgers and meat, are all perfectly competitive. Suppose that the equilibrium quantity traded of pizza decreases, and the equilibrium quantity traded of burger increases. Which of the following could explain these changes?

a) An increase in supply of meat  
b) An increase in supply of cheese  
c) A decrease in supply of meat  
d) Either a) or b)

Question A4

Old Zealand has domestic demand schedule for coconut drinks: \( P = 10 - Q \) and domestic supply schedule: \( P = Q \). If Old Zealand can import coconut drinks from Highland for $2 per can, what will be the consumer surplus with international trade in this market?

a) $32  
b) $25  
c) $16  
d) $12.5

Question A5

During the summer season in Australiana there is an increase in overseas travel by holiday makers to Americana. At the same time Americana’s population reduce their travel to Australia as it is not their holiday season. If the exchange rate is defined as the amount of Americana’s currency per $1 of Australiana’s currency, then in summer season the exchange rate will

a) Appreciate  
b) Depreciate  
c) Remain same  
d) It is not possible to say without more information

Question A6

Consider the information below on costs for a firm:

<table>
<thead>
<tr>
<th>Quantity</th>
<th>FC</th>
<th>TC</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>100</td>
<td>105</td>
</tr>
<tr>
<td>2</td>
<td>100</td>
<td>115</td>
</tr>
<tr>
<td>3</td>
<td>100</td>
<td>135</td>
</tr>
</tbody>
</table>
At which level of output will MC cut through the ATC?
   a) At quantity equals 2
   b) At quantity equals 3
   c) At quantity equals 4
   d) At quantity between 5 and 6

Question A7

Sarah the sole distributor of Pandora’s Box supplies materials to different agents in separate folders labelled by the agents’ names from A to J. The agents each have a different willingness to pay (WTP) for Sarah’s service from $1 to $10 in descending alphabetic order, for example, J’s WTP is $1, . . . and A’s WTP is $10. The opportunity cost of Sarah’s time to distribute to each agent is constant at $5 for supplying materials for each agent. Sarah has to charge same price to all agents. What would be the profit maximising price and number of agents to supply materials that Sarah would choose?
   a) Q = 1, P = 10
   b) Q = 2, P = 9
   c) Q = 3, P = 8
   d) Q = 4, P = 7

Question A8

Which of following characteristics describe restaurants on Lygon Street as being part of a monopolistically competitive market?
   a) There are many restaurants in that location
   b) Each restaurant sells different cuisines
   c) Opening up a new restaurant has no government restriction
   d) All of the above

Question A9

The market for cut flowers in Aussieland is perfectly competitive and initially the market is in long-run equilibrium. If there is an increase in market demand for cut flowers which of the following is not correct?
   a) In the short-run existing firms will make positive economic profits.
   b) In the short-run existing firms will produce higher quantities of output.
   c) In the long-run all firms continue to produce higher quantities of output.
   d) In the long-run the equilibrium quantity in the market will increase.
Question A10

What is the Nash equilibrium of the game described in the matrix below?

<table>
<thead>
<tr>
<th></th>
<th>Bob Builder</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Left</td>
</tr>
<tr>
<td>Thomas Trucks</td>
<td>Top</td>
</tr>
<tr>
<td></td>
<td>Bottom</td>
</tr>
</tbody>
</table>

a) {Thomas Trucks chooses Bottom, Bob Builder chooses Right}
b) {Thomas Trucks chooses Top, Bob Builder chooses Right}
c) {Thomas Trucks chooses Bottom, Bob Builder chooses Left}
d) {Thomas Trucks chooses Top, Bob Builder chooses Right}

SECTION B

ANSWER ALL QUESTIONS IN THIS SECTION

This section is worth 25% of the total exam marks.
All questions in this section are worth the same number of marks.
For each of the following questions:
Consider the statements. Say whether you believe each statement is correct or incorrect. Briefly explain your answer and use diagrams where appropriate. Note that most of the marks will be given for your explanation.
**Question B1**
Road congestion has become extremely problematic for commuters as they are having to spend extra time travelling to and from work everyday. In this situation, if the government was to intervene, then it will reduce efficiency.

**Question B2**
A monopolistically competitive market structure is the most efficient way to allocate resources since even in the long run producers can retain positive economic profit as well as there being positive consumer surplus; whereas in perfectly competitive market structure producers will earn zero economic profit.

**Question B3**
If two players both have a dominant strategy in a Prisoner’s Dilemma game, it doesn’t matter whether they play a simultaneous game or a sequential game, each of them will always end up with the highest possible pay-off.
SECTION C

ANSWER ALL QUESTIONS IN THIS SECTION
This section is worth 50% of the total exam marks.

Question C1 (15 marks)

“In America ski boots attract a zero tariff, but golf shoes can face a 10% rate, and steel-toe-capped boots 37.5%.”
(‘Goodbye Doha, hello Bali’, The Economist, September 8th 2012, p. 12)

(a) Suppose that the world price is the same for all types of shoes. Also assume that the domestic demand and supply schedules are the same for all three types of shoes. Using the international trade model show the differences in consumer and producer surpluses between the above mentioned three types of shoe markets in America. What conclusions about the welfare effects of tariffs can you make from your analysis? Explain. (10 marks)

(b) Discuss how the welfare effects of the tariff on golf shoes would be changed by a new technology that lowers costs of production of golf shoes in America. (5 marks)

Question C2 (20 marks)

Penelope’s Parcel Delivery Firm uses as inputs a truck, a driver, and petrol. The truck is hired at a cost of $50 per day, and the delivery firm must agree to a contract to hire the truck for at least 1 day. On any day the marginal cost (MC) of the extra driver time and petrol required to make an extra delivery equals $5 times the number of deliveries made. (For example, MC of the 1st delivery is $5, MC of the 2nd delivery is $10, MC of the 3rd delivery is $15, and so on.) The parcel delivery market is perfectly competitive.

a) Draw the short run and long run supply curves for Penelope’s Firm. (You only need to consider output levels for Penelope’s Firm up to 8 deliveries per day.) Explain the way that you have drawn the curves. (10 marks)

b) In long-run equilibrium in the parcel delivery market what will be the price per delivery? What number of deliveries per day will Penelope’s Firm make? Explain how you arrived at this result. [Hint: Think about the requirements on the firm in order for long-run equilibrium to exist.] (6 marks)

Suppose that market demand for deliveries (per day) is:

<table>
<thead>
<tr>
<th>Price per delivery ($)</th>
<th>15</th>
<th>20</th>
<th>25</th>
<th>30</th>
<th>35</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market demand</td>
<td>140</td>
<td>120</td>
<td>100</td>
<td>80</td>
<td>60</td>
</tr>
</tbody>
</table>

c) Suppose all other firms in the parcel delivery industry are identical to Penelope’s Firm. In long-run equilibrium, how many firms will operate in the industry? (4 marks)
Question C3 (15 marks)

White Ray and Horne Raine are two real estate agents in the city of Meadows. They conduct their home sales by private sales or by auctions. Their reputations in the real estate business are such that if they choose a similar way of selling, then potential customers will split evenly between them. Auctions are held every Saturday in the area between 9am to 1pm and there are 100 potential buyers every week. In any given week if they both hold auctions, each real estate agent gets a crowd of 50 interested bidders. If one does not hold an auction on a Saturday the other who does hold an auction will get 75 interested bidders and the agent who does not hold an auction gets 25 buyers for their private sale. When neither of them holds auctions, that week they each have 25 buyers for private sales; that is, 50 buyers leave the market. For each agent, a larger number of buyers increases the possibility of sale.

(a) Consider a game where the agents decide simultaneously whether to hold an auction or a private sale. Draw a game table that describes the available strategies and expresses payoffs as the number of potential buyers for each firm for each possible outcome in the game. (3 marks)

(b) What is the dominant strategy equilibrium? What is the Nash equilibrium? (2 marks)

(c) Suppose White Ray starts door to door advertising and manages to attract 50 extra buyers for its private sales if it chooses that strategy; everything else remains unchanged. What is the dominant strategy equilibrium now? What is the Nash equilibrium? (5 marks)

(d) Using the information in part (c) what is the rollback equilibrium if White Ray moves first? Explain why Horne Raine doesn’t have any incentive to move first. (5 marks)

END OF EXAMINATION